MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BFN 3114 – TAX PLANNING

(Section BO1/A & B)

31 MAY 2018
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **Nine (9)** printed pages including cover page with **Three (3)** Questions only.
2. Answer **ALL** questions.
3. Please write all your answers in the Answer Booklet provided.
4. The distribution of the marks for each question is given at the end of each question.

QUESTION 1

Mrs. Sharmini, is a resident taxpayer in Malaysia. Previously, she worked as a senior officer with the Customs Department ('the Department') in Putrajaya, earning a gross salary of RM7,000 per month. Besides salary, she was provided with the following employment benefits:

- The Department provided her with a two year old car that cost RM95,000 when new, and it was provided with fuel for official and personal use.
- She was provided with free medical benefits. In July 2017, she received specialist treatment at a government hospital. The treatment cost of RM10,000 was paid by her employer.
- She took an optional retirement on 31 October 2017 upon reaching the age of 55. She had served the Department for 25 years. On retirement, she received a gratuity of RM190,000; and a pension of RM2,000 per month commencing from 1 November 2017.

On 1 November 2017, she joined a private university as a lecturer with a gross salary of RM5,000 per month. She contributed 11% of her salary to the EPF.

During the year, she paid subscription fee of RM300 per annum for her professional membership with the Chartered Tax Institute of Malaysia, an approved taxation institute in Malaysia.

She wrote a novel that was published in late October 2017, and she received a royalty of RM30,000 from the publisher in December 2017.

She bought personal medical insurance in 2017, and pays a premium of RM1,000 per annum.

Mr. Suresh is a husband of Mrs. Sharmini. He is also a resident taxpayer in Malaysia. He works as an accountant with an established audit firm ('the firm') in Damansara, Kuala Lumpur. However, starting from 1 January 2017, he had been transferred to office branch in Johor Bahru. For the year 2017, he had the following remuneration terms:

- Gross salary (January 2017 to December 2017) of RM108,000. His contribution to Employee Provident Fund (EPF) from January 2017 to December 2017 was RM12,600.
- Bonus of two months salary payable on 31 December 2017
- A new car costing RM140,000 but without fuel benefits. The car was used both official and private purposes. The private purposes was agreed to be 1/3 of the total mileage covered.

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- A hotel accommodation for the first month of his stay in Johor Bahru immediately upon his transfer from Kuala Lumpur. The hotel accommodation cost totaled of RM10,850.

Mr. Suresh and Mrs. Sharmini have three children. The first child is 20 years old and is studying at a local university. The second child is 12 years old, physically disabled child as certified by the Department of Social Welfare, and is attending a special school. The third child is 10 years old and is attending a primary school in Putrajaya.

Mr. Suresh took an education insurance for the three children and paid a total premium of RM5,000 in 2017. He incurred RM1,000 for books and RM200 for sport equipment. Both Mr. Suresh and Mrs. Sharmini made a donation of RM1,000 each to a local approved charitable institution during the year.

Required:

Compute the tax payable for Mrs. Sharmini and Mr. Suresh for the year of assessment 2017 assuming they do not elect for combined assessment. Mr. Suresh has elected to claim the childen reliefs.

[Total: 40 marks]

QUESTION 2

a) Mr. Koo operates a grocery store named 'Koo Enterprise' in Shah Alam, Selangor. His business has been doing well and he decided to offer the delivery services of goods to the customer place. Therefore, he plans to acquire a new vehicle. Due to a shortage of cash in flow, he had asked for financial assistance from his father, a successful businessman. His father has agreed to give him a loan, which later will be used to purchase new vehicle of the business. The vehicle which would be licensed as a commercial vehicle will be registered under Mr. Koo's name and it will be used to deliver goods from groceries to customers' location and vice versa.

Required:

Explain with reasons, whether Mr. Koo is entitled to claim the capital allowance of the vehicle under Schedule 3 of the Income Tax Act 1967 (as amended).

(5 marks)

b) Mr. Andik is an Indonesia citizen. He arrived in Malaysia on 1 December 2015 and commenced his employment in Malaysia a day after his arrival. On 31 March 2016, he travelled to Thailand for an assignment related to his employment in Malaysia and he

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returned to Malaysia on 1 June 2016. He left Malaysia again on 30 June 2016 to Korea to review the sales performance of the Korean market for his employer and returned on 1 September 2016. He left Malaysia for holidays in Austria on 31 October 2016 and returned on 21 November 2016. On 30 November 2016, he resigned from the post and left Malaysia on the same date.

On 1 July 2017, he returned to Malaysia to get married with Malaysian girlfriend. He decided to settle down in the country and has not left the country since that date.

Required:

Analyse with reasons, Mr. Andik's tax resident status for the years of assessment 2015 to 2017.

(10 marks)

c) Mr. Ooi and Mr. Raja are partners in a business of supplying stationeries to various institutions including schools, universities, private and government bodies since year 2000. So far, each partner has contributed capital in the amount of RM70,000 (Mr. Ooi) and RM30,000 (Mr. Raja) respectively. The accounting year end of the business is 31 December each year. The terms of their agreement are as follows:

	Mr. Ooi	**Mr. Raja**
Salary per annum	RM30,000	RM24,000
Partners private expense (per annum)	RM4,000	RM1,500
Return on capital contribution (per annum)	5%	5%
Profit sharing ratio	70%	30%

Additional information:

1. The provisional adjusted income for the year ended 31 December 2017 was RM98,000.

2. The capital allowance on the business assets for the year of assessment 2017 was RM25,000.

3. On 1 October 2017, Mr. Raja brought in an additional capital of RM10,000. Other terms of partnership remains unchanged.

4. On 31 December 2017, the business donated cash of RM3,000 to an approved institutions.

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Required:

Compute the total income from the business for Mr. Ooi and Mr. Raja for the year of assessment 2017.

(25 marks)

[Total: 40 Marks]

QUESTION 3

Ms. Zaleha is an event consultant. She operates a sole-proprietor business known as ZLH Cekap Enterprise. The profit of the business before taxation for the year ended 31 December 2017 amounted to RM45,000. Items charged in arriving at the profit before taxation included the expenses stated in the notes below:

1. Cost of sales:
   i. Damaged stocks written off of RM4,911.
   ii. Depreciation of fixed assets of RM23,000.

2. Payroll costs:
   i. Salary to Ms. Zaleha of RM36,000.
   ii. Employees' salary of RM58,200.
   iii. Medical expenses for staff and their family of RM2,780.
   iv. Bonus to employees of RM12,000.

3. Employees Provident Fund (EPF):
   EPF contributed by the business is at the rate of 11% of the employees' total remuneration. The EPF paid is RM11,682, including 11% of EPF paid for Ms. Zaleha contribution.

4. Miscellaneous expenses:
   The business incurred expenditure on furniture and fittings for the shop of RM4,600.

5. Motor vehicle expenses:
   The business incurred RM4,510 and RM1,230 for the repair and road tax of business vehicles respectively. It also donated RM1,500 cash to approved institutions.

6. Leave passages:
   A leave passage of RM5,100 for Ms. Zaleha and her family. They went to visit relatives in Singapore for a week.

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7. Bad debts:
Included in the business expenses was general and specific provision for bad debts of RM6,000 and RM5,681 respectively in respect of trade debtor.

8. Entertainment:
The business incurred RM1,000 in respect of a lunch treat held by Ms. Zaleha at Palm Garden Hotel for the company's suppliers.

The capital allowances claimed by the business in the year of assessment 2017 was RM24,970 and the balancing allowances was RM2,180.

Required:

Compute the statutory business income of ZLH Cekap Enterprise for the year of assessment 2017.

Note: Start your computation with profit before taxation figure and indicating 'NIL' in the appropriate column for item that does not require adjustment.

[Total: 20 marks]

End of question

APPENDIX 1

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates for resident individuals for the year assessment (YA) 2016 to 2017

	Chargeable Income	Tax Rate	Income Tax Payable
	RM	(%)	RM
First	**2,500**	**0**	**0**
Next	2,500	0	0
On	**5,000**		**0**
Next	5,000	1	50
On	**10,000**		**50**
Next	10,000	1	100
On	**20,000**		**150**
Next	15,000	5	750
On	**35,000**		**900**
Next	15,000	10	1,500
On	**50,000**		**2,400**
Next	20,000	16	3,200
On	**70,000**		**5,600**
Next	30,000	21	6,300
On	**100,000**		**11,900**
Next	50,000	24	12,000
On	**150,000**		**23,900**
Next	100,000	24	24,000
On	**250,000**		**47,900**
Next	150,000	24.5	36,750
On	**400,000**		**84,650**
Next	200,000	25	50,000
On	600,000		134,650
Next	400,000	26	104,000
On	1,000,000		238,650
Exceeding	1,000,000	28	...

Non-Resident Individual Rate for employment income (YA 2016 and 2017)

Non-resident person (other than companies): 28%

Reliefs

	RM
Self	9,000
Disabled taxpayer self- additional relief	6,000
Medical expenses expended for parents (max)	5,000
Medical expenses expended on self, spouse or child with serious diseases [Including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent (max)	6,000
Fees expended for skills or qualifications (max)	7,000
Spouse relief (if he or she has no source of income or elects for combined assessment)	4,000
Disabled spouse	3,500
Child (each)	2,000
Disabled child (each)	6,000
Child- over 18 years of age and studying in higher learning institution	8,000
Disabled child studying in higher learning institution	14,000
Amount deposited to SSPN for his child (max)	6,000
Life insurance premiums and contributions to approved provident funds (max)	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Lifestyle (books, sports equipment, computer, broadband and gymnasium fee)	2,500
Social Security Organization (SOCSO) Scheme	250
Breastfeeding equipment	1,000
Parental care: father & mother (each)	1,500

Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

Prescribed value of benefits in kind: Car and fuel scale

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001- 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of the fuel provided remains unchanged. Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

Other benefits

Household furnishings, apparatus & appliances
- Semi-furnished with furniture in the lounge, dining room, or bedrooms - RM70 per month
- Semi-furnished with furniture as above and one or more of the following:
  - Air-conditioners, curtains, carpets - RM140 per month
  - Fully furnished premises - RM280 per month

Domestic servant - RM400 per month
Gardener - RM300 per month

Capital allowances

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3
Computer, information technology equipment & computer software	20	40

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